

Tax-Free Transportation: Utilizing Commuter Benefit Programs to Save Your Business Money



1/15/2015
Commute Smart Business Workshop



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Agenda

- Introduction to Commute Seattle
- Commuter Trends and Transit Benefits
- Washington State B&O Tax Credits
- Federal Transportation Fringe Benefits
 - Transit / Vanpool
 - Qualified Parking
 - Bicycle Benefit
- Implementation





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- Transportation Management Association
- Partnership between Downtown Seattle Association, SDOT and King County Metro
- Vision:
 - Create a more livable, sustainable, and economically competitive Seattle
- Mission
 - Help downtown users live more and drive less by improving access and mobility to and within downtown

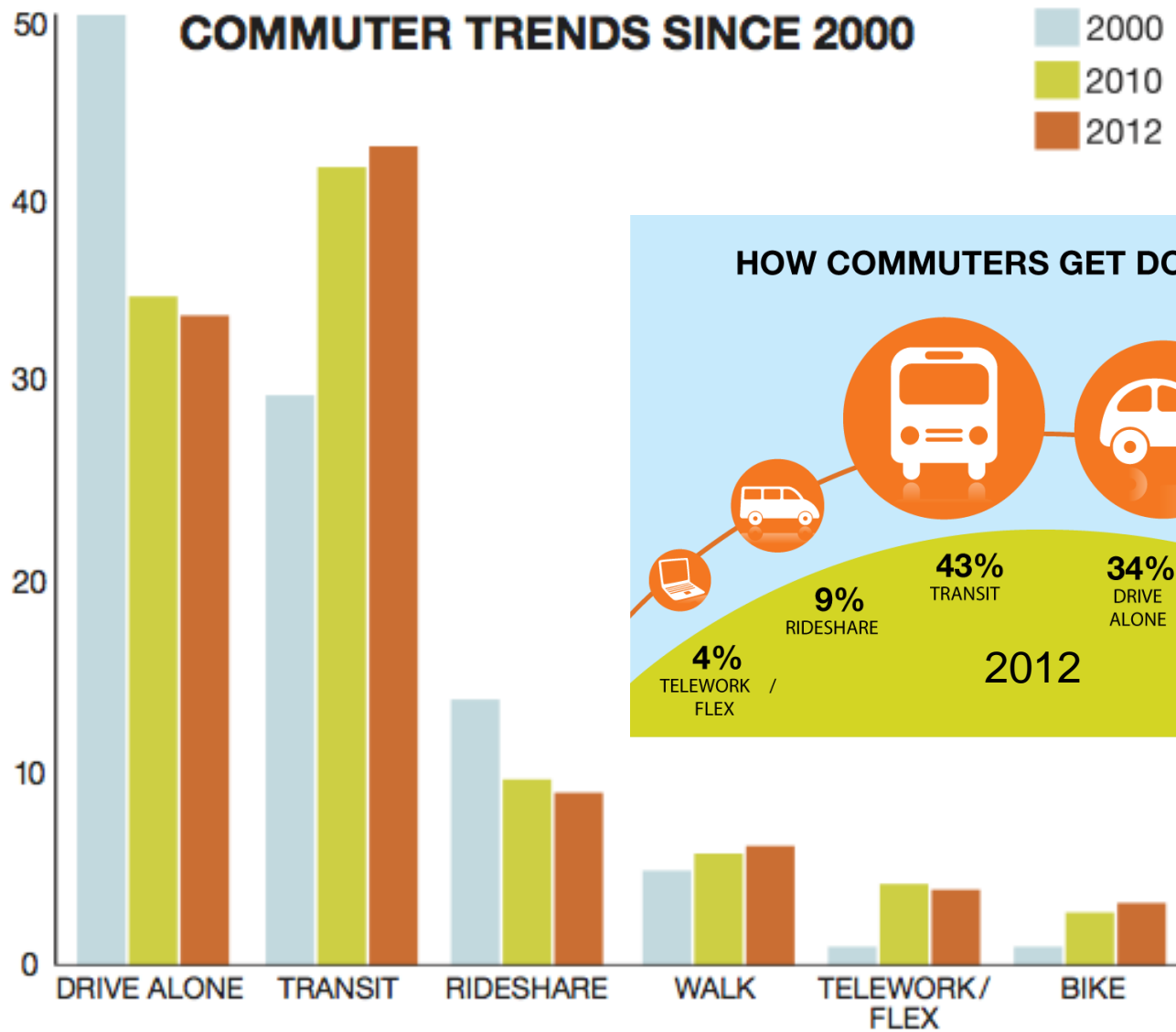


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Limits to Drive-Alone Commuting



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Estimated Vehicle Miles Driven on All Roads

dshort.com

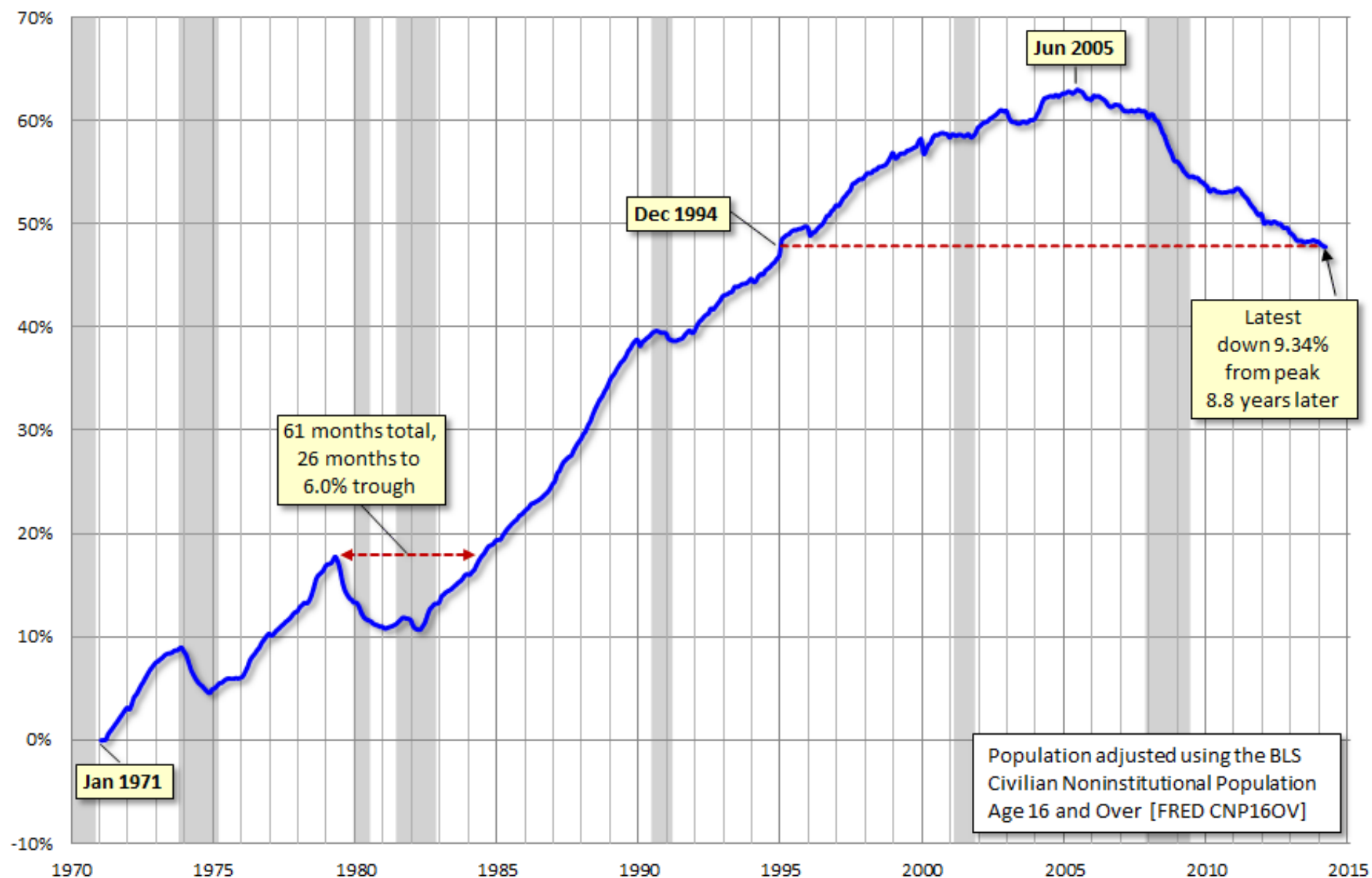
May 2014

Data Through March

Recessions

Population-Adjusted Growth

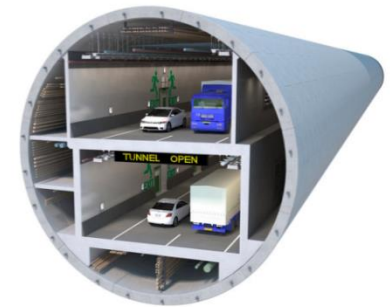
-----Current Level



Factors affecting downtown commuters

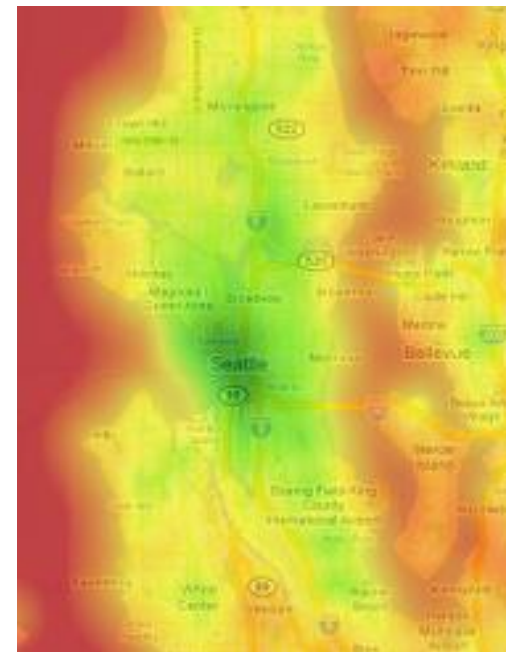


- Rising fuel, tolling, and parking prices
- Unprecedented levels of construction



Downtown Seattle commute options:

- Bus / Light Rail / Sounder Train / Streetcar
- Ferry / Water Taxi
- Carpool / Vanpool / Vanshare
- Bike / Walk
- Telework / Flex Schedule



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New Transportation Resources



OneBusAway



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Commuter Benefits Becoming More Valuable



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Commuter Benefits



- Highly valued and relatively inexpensive



- Sustainable



- Improve morale and productivity



- Help make downtown more accessible



- WA Commute Trip Reduction (CTR) Regulations



- **Tax benefits**





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Who pays what?



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welcome! who are you?

commuter

employer

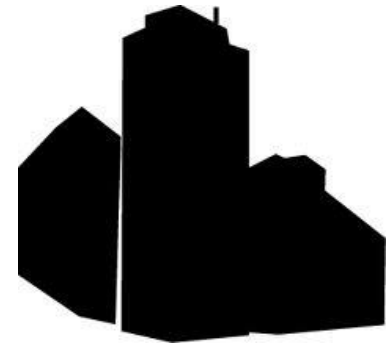
property owner



Joe Commuter



ACME Co



XYZ Building,
ABC Properties



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Employees:

- Federal Taxes
 - Federal Withholding Taxes
 - FICA Taxes
 - Social Security
 - Medicare



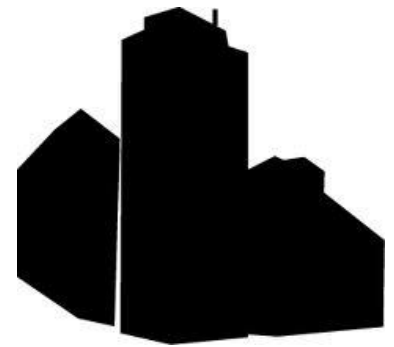
Employers:

- Federal Taxes
 - FICA Taxes
 - Social Security
 - Medicare
 - Corporate Income Tax
- WA State Taxes
 - Business and Occupation Taxes



Property Owners and Managers:

- Federal Taxes
 - Corporate Income Tax
- WA State Taxes
 - Business and Occupation Taxes



WA State Taxes



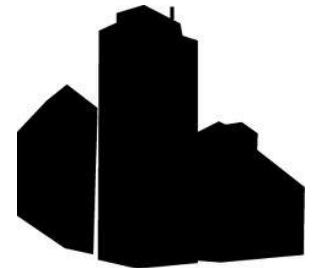
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WA State Business and Occupation Tax

- The WA State B&O Tax is a gross receipts tax. It is measured on the value of products, gross proceeds of sale, or gross income of the business.

Major B&O Classifications

B&O Classification	Rate
Retailing	.00471
Wholesaling	.00484
Manufacturing	.00484
Service & Other Activities	.015



Commute Trip Reduction Credit

- Employers and property managers who provide ***commute trip reduction incentives*** to or on behalf of their own or other employees are eligible for a credit against their business and occupation (B&O) liability.
- Commute trip reduction methods that qualify for the credit are:
 - Ride Sharing
 - Public Transportation
 - Car Sharing
 - Non-Motorized Commuting



Commute Trip Reduction Credit

- Credit is 50% of the amount spend per employee up to \$120/year
 - \$60 max credit/employee
- No employer or property manager may receive more than \$200,000 of credit per fiscal year.
- Must maintain a record of each employee and the amount of incentives paid, less any employee contributions.
- Only one employer/property manager may use the credit for incentives paid to a specific employee.



WA State B&O Tax

- The total amount of credit available for *all* Washington taxpayers is limited to \$1.5 million per fiscal year.
- After all businesses apply and exceed the \$1.5 million limit, a proportional reduction is applied to each application.
- This state-wide spending cap was reduced from \$2.75 million to \$1.5 million for 2014 and 2015



WA State B&O Taxes

- Program was set to expire July 2014, was renewed for a year
- The program is set to expire June 30, 2015
- Renewal is under consideration by legislature
- Please let us know if you are interested in voicing your support for renewal



WA State B&O Taxes

- The application must be received by the Department of Revenue between January 1 and January 31, following the calendar year in which the applicant offered the incentive
- Applications will be approved within 60 days of the January 31 deadline
- Application is in your packet or apply online:
<http://dor.wa.gov/content/FindTaxesAndRates/TaxIncentives/IncentivePrograms.aspx#Miscellaneous>



Federal Taxes



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2015 Federal Tax Brackets

Annual Taxable Income	Tax Rate on Last Dollar Earned				
Tax status: Single	Federal Income Tax Rate	Social Security Rate	Medicare Rate	Total Employee	Total Employer
\$0 – \$9,225	10%	6.20%	1.45%	17.65%	7.65%
\$9,226 – \$37,450	15%	6.20%	1.45%	22.65%	7.65%
\$37,451 – \$90,750	25%	6.20%	1.45%	32.65%	7.65%
\$90,751 - \$118,500	28%	6.20%	1.45%	35.65%	7.65%
\$118,501 - \$189,300	28%	0.00%	1.45%	29.45%	1.45%
\$189,301 – \$411,500	33%	0.00%	1.45%	34.45%	1.45%
\$411,500 - \$413,200	35%	0.00%	1.45%	36.45%	1.45%
above \$413,200	39.6%	0.00%	1.45%	41.05%	1.45%

Federal
Withholdings
paid by
employee

FICA
Paid by both
employer and
employee



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Joe's Taxes

- Joe is single and makes **\$50,000** per year working for ACME Company. He has no children, doesn't own his own home, and has no other sources of income or deductions.



Joe's Taxes

Annual Taxable Income	Tax Rate on Last Dollar Earned				
Tax status: Single	Federal Income Tax Rate	Social Security Rate	Medicare Rate	Total Employee	Total Employer
\$0 – \$9,225	10%	6.20%	1.45%	17.65%	7.65%
\$9,226 – \$37,450	15%	6.20%	1.45%	22.65%	7.65%
\$37,451 – \$90,750	25%	6.20%	1.45%	32.65%	7.65%
\$90,751 - \$118,500	28%	6.20%	1.45%	35.65%	7.65%
\$118,501 - \$189,300	28%	0.00%	1.45%	29.45%	1.45%
\$189,301 – \$411,500	33%	0.00%	1.45%	34.45%	1.45%
\$411,500 - \$413,200	35%	0.00%	1.45%	36.45%	1.45%
above \$413,200	39.6%	0.00%	1.45%	41.05%	1.45%



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Joe's Taxes

Bracket Differences				Taxed Amount		Tax Rate		Tax Owed
\$9,225	-	\$0	=	\$9,225	x	17.65%	=	\$1,628.21
\$37,450	-	\$9,225	=	\$28,225	x	22.65%	=	\$6,392.96
\$50,000	-	\$37,450	=	\$12,550	x	32.65%	=	<u>\$4,097.58</u>
						Joe's Taxes	=	\$12,118.75
		Joe's Tax Rate	=	\$12,118	/	\$50,000	=	24.24%
		Employer Tax	=	\$50,000	x	7.65%	=	\$3,825.00

- Joe must pay 17.65% on first \$9,225 earned, 22.65% on dollars earned between \$ 9,225 and \$37,450, and 32.65% on dollars earned between \$37,450 and \$50,000.
 - Joe pays \$12,118 per year, 24.24% of total income
- The rate that Joe is taxed on *his last dollar earned* is 32.65%
- ACME Co must pay 7.65% on all \$50,000 earned: \$3,825 in FICA taxes
- **When Joe spends pre-tax income on qualified benefits, he saves 32.65%, ACME saves 7.65%**



Federal Commuter Benefits

1. Employee-paid pre-tax

- Employee reserves income on pre-tax basis to pay for transit/vanpool fares

2. Employer-paid tax-free

- Employer pays full cost of transit/vanpool fares as a tax-free qualified fringe benefit

3. Shared cost

- Employer pays part of cost tax-free and employee pays balance using pre-tax income



Who Can Receive Tax-Free Commuter Benefits?

- All W-2 recipients can receive commuter benefits, including those working for:
 - Private sector companies
 - Non-profit companies
 - Federal government
 - State and local governments (when legislation permits)



Who Cannot Receive Tax-Free Commuter Benefits?

- Self-employed persons (sole proprietors and partners)
- 2% shareholders of S Corporations
- Contractors



Pre-tax Commuter Benefit

- A specified amount of employee salary is reserved *before payroll taxes are deducted* to buy transit or vanpool fare media and or qualified parking
- Employee-paid but requires employer administration
- See Title 26 USC Section 132 (f) - “Qualified Transportation Fringe” and Federal Register/Rules and Regulations



Section 132(f) vs Section 125

- Pre-tax benefits programs are treated under two sections of tax law:
 - 132 (transportation)
 - 125 (health care and other cafeteria plans)
- 132(f) and 125 funds cannot be combined or co-mingled
- Section 132(f) is easier to administer and more flexible allowing employee enrollment as often as monthly



Third Party Administrators

- Mostly used by employers with large workforces, centralized administration and/or multiple worksites
- Services that may be provided by TPA for a fee:
 - Enrollment services
 - Payroll deduction management
 - Ordering and distribution of passes
 - Reporting and record-keeping



Joe's Pre-tax Commuter Benefit

- ACME Co allows Joe to buy his \$99 Metro One-Zone Puget Pass* with pre-tax dollars
 - Joe spends $\$99 \times 12 \text{ months} = \$1,188$ on transit in 2015
 - Joe's taxable income is now:
 - $\$50,000 - \$1,188 = \textbf{\$48,812}$

*One-Zone Peak Puget Pass price starting March 2015



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Joe's Pre-tax Commuter Benefit



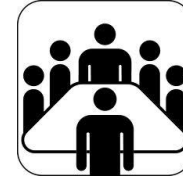
- Joe saves:
 - $\$1,188 \times 32.65\% = \387.88 per year
 - \$32.32 each month
- This effectively brings the price of his \$99 Metro One-Zone pass to \$66.68
- ACME Co saves:
 - $\$1,188 \times 7.65\% = \90.88 per year



Joe's Employer-Subsidized Commuter Benefit

- ACME Co purchases Joe's \$99 Metro One-Zone Puget Pass for him.
 - ACME Co spends \$1,188 on transit for Joe in 2015 as a tax-deductible business expense
 - This is a qualified fringe benefit- *not taxable income*
 - Joe's taxable income is still \$50,000, not \$51,188
 - The benefit is like giving Joe a \$1,188 raise tax-free





If Employer:	Cost to Employee	Cost to Employer
Does Nothing	\$99	\$0
Administers pre-tax benefit	\$67	<i>Saves \$8</i>
Subsidizes \$50 per month + administers pre-tax benefit	\$33	\$46
Subsidizes 100% of monthly pass	\$0	\$99



Pre-Tax Parking Benefit

- Like transit benefit for “Qualified Parking”
 - Parking provided to employees on or near the business work premises, or parking on or near a location from which employees commute to work by commuter highway vehicle, mass transit, or vanpool
- Can be pre-tax employee spending, tax-free employer subsidy, or combination
- Can be administered in addition to transit/vanpool benefit if employee uses both transit and parking
- Company can pay parking provider directly from pre-tax set aside funds or use a ‘bona fide reimbursement arrangement’



The Fine Print

Cash Reimbursements for Transportation Expenses

Cash reimbursements for transportation expenses can be excludable if the employer establishes a bona fide reimbursement plan. This means there must be reasonable procedures to verify reimbursements and the employees must substantiate the expense. See “Transit Passes” for additional requirements. *IRC §132(f)(3)*

Cash Reimbursements - Special Rule

Cash reimbursement is nontaxable **only** if no voucher or similar item is readily available for direct distribution to employees. A voucher is readily available for direct distribution only if an employee can obtain it from a voucher provider that does not impose fare media charges or other restrictions that effectively prevent the employer from obtaining vouchers. *§ 132(f)(3) Reg. §1.132-9(b), Q-16-19*

ORCA Business accounts are available in this region, so cash reimbursement may only be used for qualified parking – not Transit or Vanpool



Commuter Benefit Monthly Limits

Maximum Tax-Free Spending for:	2010	2011	2012	2013	2014	2015
Vanpool, Bus, Ferry, Rail (all public transportation)	\$ 125	\$ 230	\$ 240	\$ 245	250*	\$ 130
Qualified Parking	\$ 230	\$ 230	\$ 240	\$ 245	\$ 250	\$ 250

- **2011:** Stimulus package increases transit/vanpool benefit limit to \$230
- **2012-2013:**
 - Parking limit increased to \$240, Transit / Vanpool limit reverted to \$125
 - Then at the end of the year, the 2012 “Fiscal Cliff” deal increased monthly transit/vanpool benefit spending limit to \$240 for 2012, and \$245 for 2013
 - The provision was retroactive to January 1st 2012
- **2014:**
 - Transit / Vanpool limit increase expired 1/1/14, and it reverted to \$130 per month.
 - Congress voted to increase the limit to \$250 mid-December, retroactive to 1/1/14
 - *This limit increase lasted only two weeks, and expired on 1/1/15



2014 Downtown Seattle Retail Transit Rates

Modes that
exceed
\$130 per
month

Type of Pass	One-Way Fare	Monthly Price
LINK Light Rail: Beacon Hill/SoDo Stations	\$2.00	\$72.00
Sound Transit One Zone Express	\$2.50	\$90.00
Metro Peak One Zone	\$2.50	\$90.00
Washington State Ferries (WSF): Central Sound	\$7.10	\$90.90
LINK Light Rail: Tukwila & Airport	\$2.75	\$108.00
Metro Two Zone	\$3.00	\$108.00
Sound Transit Multi-County	\$3.50	\$126.00
Sounder Train Edmonds/Kent Station	\$3.50	\$126.00
Sounder Train: Auburn	\$3.75	\$135.00
WSF: Vashon/Fauntleroy + Metro One Zone	\$7.40	\$139.85
WSF: Southworth/Fauntleroy + Metro One Zone	\$7.40	\$139.85
Water Taxi West Seattle	\$4.00	\$144.00
Community Transit South/Everett	\$4.00	\$144.00
Sounder Train: Mukilteo	\$4.00	\$144.00
WSF: Bainbridge/Bremerton + Kitsap Transit	\$9.50	\$146.80
Sounder Train: Puyallup/Sumner	\$4.25	\$153.00
Sounder Train Everett	\$4.50	\$162.00
King County Water Taxi: Vashon/Seattle	\$4.75	\$171.00
Sounder Train Tacoma	\$4.75	\$171.00
Sounder Train South Tacoma	\$5.00	\$180.00
Community Transit North/East	\$5.25	\$189.00
Sounder Train Lakewood	\$5.25	\$189.00



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Commuter Benefit Monthly Limits

Maximum Tax-Free Spending for:	2010	2011	2012	2013	2014	2015
Vanpool, Bus, Ferry, Rail (all public transportation)	\$ 125	\$ 230	\$ 240	\$ 245	250*	\$ 130
Qualified Parking	\$ 230	\$ 230	\$ 240	\$ 245	\$ 250	\$ 250

- **2014**

- Transit / Vanpool limit increase expired 1/1/14, and it reverted to \$130 per month.
- Congress voted to increase the limit to \$250 mid-December, retroactive to 1/1/14
 - *This limit increase lasted only two weeks, and expired on 1/1/15
- Readjustments can be made if an employee ran all 2014 transit expenses through the employer's ORCA program, splitting the total spending between pre-tax salary deferrals up to the \$130 limit and the rest as after-tax salary deferrals.
- Employee out-of-pocket spending over the initial \$130 limit is not eligible for retroactive readjustment
- Employers have to adjust their fourth quarter Form 941 tax returns or file corrected Form 941-Xs as well as adjusting workers' W2 forms.

- **2015**

- Transit/Vanpool spending limit reverted to \$130



“IRS Guidance On Retroactive 2014 Commuter Tax Break”

Forbes

Forbes.com 1/8/15

Congress isn't expected to take up the tax extenders for 2015, including the transit parity provision, any time soon. So the only way to protect your potential benefit is to continue running your commuting expenses through payroll.

<http://www.forbes.com/sites/ashleaebeling/2015/01/08/irs-guidance-on-retroactive-2014-commuter-tax-break/>



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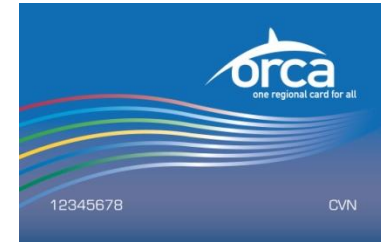
ORCA One Regional Card for All



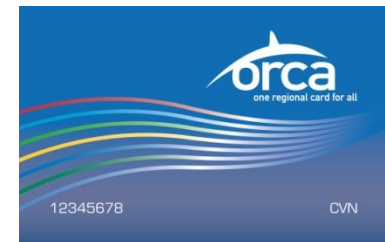
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Types of ORCA Accounts

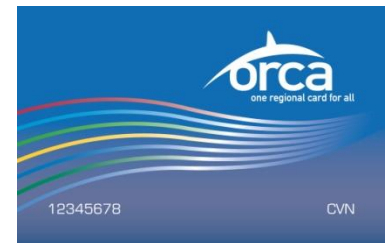
- **ORCA Personal Account**



- **ORCA Business Choice**



- **ORCA Business Passport**



ORCA *Business Choice*

- Monthly passes
 - Bus, Rail, Ferry, Vanpool
 - “PugetPass”
- E-Purse
- Monthly ordering, retail pricing
- No minimum employer contribution or employee count



ORCA *Business Passport*

- Deeply discounted, annual, comprehensive, unlimited, bundled transit pass
- Unlimited rides on:
 - All regional buses
 - All regional rail
 - King County Water Taxi
- Fully subsidized Vanpool/Vanshare
- Home Free Guarantee



ORCA Business Choice Monthly Pass Pricing

Type of Pass	One-Way Fare	Monthly Price	Annual Cost
LINK Light Rail: Beacon Hill/SoDo Stations	\$2.25	\$81.00	\$972.00
Sound Transit One Zone Express	\$2.50	\$90.00	\$1,080.00
Metro Peak One Zone	\$2.75	\$99.00	\$1,188.00
LINK Light Rail: Tukwila & Airport	\$3.00	\$108.00	\$1,296.00
Metro Two Zone	\$3.25	\$117.00	\$1,404.00
Sound Transit Multi-County	\$3.50	\$126.00	\$1,512.00
Sounder Train: Auburn	\$3.75	\$135.00	\$1,620.00
Community Transit: South/Everett	\$4.00	\$144.00	\$1,728.00
Sounder Train: Mukilteo	\$4.00	\$144.00	\$1,728.00
WSF: Bainbridge/Bremerton + Kitsap Transit	\$10.00	\$153.20	\$1,838.40
Sounder Train Everett	\$4.50	\$162.00	\$1,944.00
WSF: Vashon/Fauntleroy + Metro One Zone	\$7.95	\$166.40	\$1,996.80
King County Water Taxi: Vashon/Seattle	\$4.75	\$171.00	\$2,052.00
Sounder Train Tacoma	\$4.75	\$171.00	\$2,052.00
Sounder Train: Lakewood	\$5.25	\$189.00	\$2,268.00

ORCA Business Passport Pricing

Type of Pass	Equivalent Monthly Price	Annual Cost
Passport for Downtown Central Business District Companies: First year price net of card fee and rebate	\$52.91	\$634.86

Prices updated 1/1/15; fares reflect scheduled fare increases for 3/1/2015

* Reflects net price for first year downtown Seattle CBD. Prices vary by area and are subject to change.

** Contact Commute Seattle for current pricing, rules and eligibility



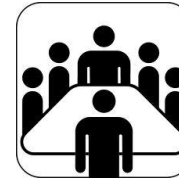
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ORCA *Business Passport*

Rules:

1. Company must have at least 5 employees to qualify
2. Company must purchase Passport for ALL Full Time benefited employees
3. Company must subsidize at least 50% of the cost of the Pass





If Employer:	Cost to Employee	Cost to Employer
Does Nothing	\$99	\$0
Administers pre-tax benefit	\$67	<i>Saves \$8</i>
Subsidizes \$50 per month + administers pre-tax benefit	\$33	\$46
Purchases ORCA Passport and pays 50% (employee uses pre-tax)	\$19	\$25
Purchases ORCA Passport and pays 100%	\$0	\$55
Subsidizes 100% of monthly pass	\$0	\$99



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Six basic steps to a Commuter-Paid Pre-Tax Commuter Benefit

1. Decide it's a go!
2. Make arrangements with payroll to set aside employees' pre-tax wages
3. Communicate with/enroll employees
4. Buy the passes employees need for bus, train, ferry or vanpool using set aside funds
5. Distribute passes to employees
6. Have costs deducted from employees paychecks



Five basic steps to an Employer-Paid Tax-Exempt Commuter Benefit

1. Decide it's a go!
2. Communicate with/enroll employees
3. Sign up for ORCA Business account, buy the passes employees need for bus, train, ferry or vanpool as a tax-deductible business expense
4. Distribute passes to employees
5. Apply for WA State B&O tax credit in January



Federal Bicycle Commuter Benefit



PHOTO: JONATHAN BLOOM



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Bicycle Tax-Free Benefits

- **The Bicycle Commuter Act**

- Effective January 1, 2009, employers may reimburse employees, tax free, up to \$20/month for "reasonable" expenses related to their bike commute if the bicycle is used as a "substantial part" of the commuter's trip to work for the month.
- “Reasonable” includes
 - Purchase of bicycle or bicycle accessories
 - Bike commuting clothing and gear
 - Bicycle maintenance
 - Bicycle storage fees
- Bikeshare is not eligible for tax-free spending
- Has to be employer paid. No pre-tax allowed



Eligibility



January

Bicycling with a moderate effort (12-14 mph) for one hour will burn 560 calories for a 155 lb. adult; 690 calories for a 190 lb. person.

I, _____, pledge that I rode my bike to and from work a minimum of three days per week this month.

Attach any bike expense receipts incurred this month to this card when you turn it in to your human resources department.

League of American Bicyclists

www.bikeleague.org

- Commuters who “regularly” use their bicycle for a substantial portion of their commute.

AND

- Receive no other transportation benefits, such as parking subsidies or transit passes



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Employee benefits

- Up to \$20 for each qualifying month
- Non-taxed → greater buying power
 - Joe would save \$6.53 each month compared to a \$20 raise



Employer benefits

- No FICA taxes on bicycle benefit spending
- Each \$20 payout saves company \$1.53
- Supports company health and wellness and sustainability programs



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Employer benefits

- No FICA taxes on bicycle benefit spending
- Each \$20 payout saves company \$1.53
- Supports company health and wellness and sustainability programs



Bicycle Tax-Free Benefits

- **How Are Reimbursement Requests Substantiated?**
 - Employers must verify a legitimate expense was incurred
 - Employer must reimburse by March 31st of the following calendar year
 - Cash reimbursement or voucher to local bike shop acceptable- up to \$240 per year
 - No formal procedures or paperwork



Summary:

Federal Tax-Exempt Benefits

- \$130 per month Transit / Vanpool
 - Tax-free benefit, pre-tax spending or combo
- \$250 per month Qualified Parking
 - Tax-free benefit, pre-tax spending or combo
 - Transit / Vanpool and Parking can be combined- up to \$380 total
- \$20 per month Bicycle Benefit
 - Tax-free benefit only (no pre-tax)
 - Can't combine with other fringe benefits



Non-Tax-Exempt Benefits

- Gym memberships
- Zipcar, car2go, Lyft, Uber, SideCar, taxi, bikeshare
- Incentives for walking, biking, carpooling etc.
- Parking cash-out incentives





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[Who We Are](#) [For Business](#) [Property Managers](#) [Commuters](#) [Our Services](#) [News](#) [Calendar](#)

FOR BUSINESS

Your Employees Are Your Greatest Assets

No one wants their employees arriving to work stressed and agitated from traffic and gridlock. Unlock their hidden potential by providing commuter amenities that empower them to choose alternatives to driving.

There are so many ways you can be a transit-supportive workplace. From Commute Trip Reduction programs, transit subsidies such as ORCA Business Passport, or flexible teleworking policies, the possibilities are endless! Scroll down for all the ways Commute Seattle can help you improve your program.

What proportion of
CTR-affected
employees drive to
work Downtown?

27%

BENEFITS
EMPLOYEES.
BENEFITS YOUR
BOTTOM LINE.

[LEARN MORE](#)



MEET OUR

COMMUTE TRIP
REDUCTION

CTR-affected? We provide comprehensive
support for your program.

[LEARN MORE](#)

MEET OUR
PARTNERS

WINTER BIKE
SEMINAR SALE

Keep your employees warm, dry, and biking all
winter long. Just \$350 through March 31.

[LEARN MORE](#)

MEET OUR
PARTNERS

DOWNTOWN



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Next Steps

If your company is...

- **Doing nothing**– Talk to your accountant about up a 132 (f) pre-tax account for employees and consider providing a tax-free transit subsidy
- **Subsidizing transit in any capacity**– apply for the WA State B & O Tax Credit- 2 weeks left to apply!
- **Fully or partially subsidizing transit passes**
 - Look into ORCA Business Passport



Questions?



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